

A Discussion on the European Debt Crisis by Fiscal Sociology

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Abstract

The purpose of this article is that discuss the reasons of European debt crisis. Every European country adopts austerity policy, which cannot solve government debt problems and further lead to economic exacerbation and continuous recession, based on the neoclassical economic theory. In order to realize the root of European debt crisis, this article adopts the reaseach method of fiscal sociology. In this study, we think that the government debt problem is the result of economic profits conflict based on the Fiscal Sociology. The economic profits conflict of investment, consumption, international business and labor market will have influence on the government's revenue and expenditure. Furthermore, the root of the European debt crisis is the uneven income distribution by financialization and neoliberalism.

Key words: *European Debt Crisis ; Fiscal Sociology ; Income Distribution ; Financialization*

JELClassification : H63

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1. Introduction

The problem of government debt is the result of economic profits conflict. The economic profits conflict problems of investment, international business, labor market influences the government's revenue and expenditure. Therefore, we should focus on the issue of economic profits conflict to face the sovereign debt crisis among European countries.

The financial capitalism shifts the relationship among people to people, region to region and country to country. The shift in social structure will lead to economic profits conflict in different aspects. Furthermore, it will also influence government debt problem.

This study will discuss the European sovereign debt crisis through Fiscal Sociology. Fiscal Sociology emphasizes the influence of government debt based on the economic profits conflict in class conflict. Moreover, it also observes

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influence of economic profits conflict which takes the relationship of politics, economy and society into consideration simultaneously. Therefore, it is suitable for us to analyze government debt problem in every European country based on the financial capitalism.

This study is organized as follow. Section one is introduction. Section two is literature review. It will discuss the reason and influence of the European debt crisis and the Strategy of every European country . In section three, this article adopts the reaseach method of fiscal sociology. It will discuss the European debt problem in the aspect of the shift in social structure. It emphasizes that the income distribution are exacerbated because of financialization and neoliberalism. Moreover, it also has disadvantage influences on investment and consumption which exacerbates government debt in every European country. In section four, it is the conclusion.

2. Literature review

2.1 The Reason of European Debt Crisis

The reasons of European debt crisis can be divided into three parts. First, it is financial policy. Due to the globally liberalization of finance, it causes the global financial crisis. The crisis originated from the real estate crisis in the USA in 2007 and it indirectly led to the financial crisis in the USA in September 2009 which evolved into global bank crisis. The origin of real estate was from low interest; thus the government was permitted more mortgage bonds and derivatives. Furthermore, banks provided loans to those low income earners without thinking whether they had solvency or not in the future because banks just wanted to earn their profits by providing loans. However, when the interest rate rose, it caused some of debtors could not afford their debts. Then some of debtors transferred the responsibility of paying those debts towards banks. Thus, banks suffered from a huge liability and led to a bank crisis (Lapavitsas et al., 2011:11).

During the crisis, because all of European's banks also purchased the toxic assets and over invested in the financial commodities, such as derivatives, and the credit default swap(CDS)increased highly, those factors caused the over indebted in the bank. In the bank crisis, the bank's debt in the peripheral countries (Greece, Spain and Portugal) increased. Their ratio of private debt to GDP is 130.2%、 212.5% and 249% in 2012 quarter3.

Second, it is fiscal policy. European countries implement high social welfare policy and the problem of tax evasion is serious; thus, it leads to the situation that the government's revenue is smaller than the government's expenditure in the long-run. Then the ratio of fiscal deficit to GDP rises. For example, the ratio of fiscal deficit to GDP in Ireland, Spain and Greece are 14.6%、 11.2% and 13.6% in 2009.

Although the European Union has the unitary monetary policy, its fiscal policy has lots of limitation and does not have unity. The Stability and Growth Pact (SPG) is the main fiscal discipline. It regulates that the government's deficit cannot over the 3% of GDP and the sovereign debt should be lower than 60%. If country is against the discipline, it will have heavy punishment on the 0.5% of GDP. This fiscal discipline causes the European debt crisis much severer than before. During the crisis, some of countries adopted the austerity policy to achieve the requirement of the Stability and Growth Pact in order to acquire the rescue from the European Central Bank (ECB). This method let the peripheral countries towards the further serious situation.

In the aspect of tax policy, even though all of countries raised their tax rate, the main increase was on the indirect tax and the Individual Income Tax on the middle and low income earners instead of Corporation Tax. Some of countries lowered the tax rate to broaden the tax based to increase tax revenue. However, these tax policies cannot increase tax

revenue and reduce the fiscal deficit. Seriously, it will lead to increase the opportunity of avoiding tax by those high income earners and big-scale multinational enterprises. Then the European debt crisis is much more serious.

Finally, it is monetary and trade policy. From the 2002, the Euro started to use formally. Therefore, the European Union integrated divergent economic monetary policy around the Europe. However, due to the divergent and unstable economic framework in every European country, it causes the unstable integration. The core countries (Germany and France) are more superior than the peripheral countries (Greece, Portugal, Spain and Ireland) in the aspect of economy and society.

Germany's economy is export-oriented because of the mercantilism. Furthermore, countries only can adjust the labor market to increase international competition due to the limitation of fiscal policy and the unitary monetary policy. In this kind of situation, squeezing wages is the essential policy and it results in a race to the bottom. This strategy makes the Germany have higher competition than those peripheral countries because Germany has low cost of labor and high export which lead to the Euro's exchanged rate increases. The peripheral countries need to use more their own currency to change the Euro when the peripheral countries join the Euro zone. This will create a high cost to the peripheral countries. Germany has a great deal of current balance surplus compared to those peripheral countries because of the high export. Then Germany has the power to control the capital flow and international business. Relatively, the peripheral countries apparently appear current balance deficit and lose competition. Gradually, it deepens the European debt crisis (Lapavitsas et al., 2010a; Lapavitsas et al., 2010b; Lapavitsas et al., 2011).

2.2. The Influence of European Debt Crisis in every country

Because of European debt crisis, it caused the economic upheaval in European countries as well as global economy. This crisis led to fiscal and credit contraction, the recession and austerity of economy, negative growth rate of GDP and the increase of government debt and deficit. It also caused the decline of aggregate demand, export, investment and saving. Moreover, the unemployment rate raised and the inflation was high. Above these factors, peripheral countries (Greece, Portugal, Spain and Ireland) are much more serious than the core countries (Germany and France) .

2.3. The strategy of every European country

Since the European debt was happened, the Euro Union adopted the rescue plan to rescue the peripheral countries. Policies are based on the austerity policy and neoliberalism among every country. The austerity policy is adopted in order to achieve the regulation of Stability and Growth Pact and decrease the fiscal deficit. The goal of neoliberalism is that enhance the economy and GDP growth in every country. Importantly, it strengthens the competition. The definition of neoliberalism is that it is against the government to intervene domestic economic and commercial behavior. Furthermore, it emphasizes the individual property and free market. It also supports the privatization and against the minimum labor policy. The role of government is to supply the free competition market (Harvey, 2005:2). Therefore, the rescue plan and austerity policy are the main strategy.

2.4. The effect of the strategy

The main solutions are the austerity and liberalization to every European country. This strategy stabilizes the international finance. It can effectively reduce government debt and fiscal deficit in the short-run. Nevertheless, it cannot be an effective strategy in the long-run because the austerity will lead to much severer economic recession and negative growth rate of GDP. Countries burden heavy debts, credit contraction and the austerity of employment. Moreover, it will suppress wages. After government implements the policy, labor burdens all the cost; however, the

capital acquires all the profits. To the peripheral countries, it may cause the debt problem, which is much more serious than before, and deflation. Then it will lose the international competition and have current balance deficit. It cannot effectively stimulate the aggregate demand by the liberal market. In addition, it may influence labor market and lead to weak consumption. Transforming the power between labor and capital will weaken the trade union's bargaining power which causes the advantage towards capital instead of labor.

The fiscal deficit is not the reason to cause the weak of international competition in the European debt crisis. The real reason is the insufficient domestic effective demand and uneven distribution between capital and labor. Therefore, we will discuss the European debt crisis by financialization and uneven distribution of labor shares, which is caused by liberalism, in section three.

3. Research Methodology: Fiscal Sociology

In order to realize the root of European debt crisis, this article adopts the research method of fiscal sociology to discuss debt crisis in every European country. In this part, first, it will explain the basic viewpoints of debt crisis and the restriction of strategy. Second, introduce the research method of fiscal sociology. Moreover, it will further discuss current restriction of strategy in every country through fiscal sociology. Finally, discuss the root of European debt crisis through financialization and income distribution.

3.1. The Basic Viewpoints of Facing Debt Crisis and the Limitation of Strategy

The main strategy is austerity for all the European Union country when they face the problem of government debt. They cut government expenditure to control government debt. This strategy is based on the neoliberalism which is in 1980s. The neoliberalism is against the government to intervene economy. In fact, it is the neoclassical economic theory nowadays. It thinks that the economic activity of country or nation is viewed as the behavior of transactions in the market economy. Government is like a profit-seeking enterprise in this concept and assesses its income and spends accordingly as a principle of management finance. If government has debt problem, it is like private enterprises which has a loss. They need to come up with an idea to solve it. The basic viewpoints of government debt for all European Union countries in the neoclassical theory have three parts.

First, it considers that cause economic recession without liquidating government debts. When fiscal revenue is smaller than fiscal expenditure, it will result in accumulated heavy debt by government. Therefore, when government accumulates heavy debt, they need to solve it as soon as possible because it will impact economic growth. In other words, they think that the reason of recession is government's fiscal deficit.

Second, discuss the problem of government debt from aspect of economy. It only discusses the relationship between fiscal deficit and economic growth. However, the social issue of the financialization, current balance deficit and income distribution, which is based on the fiscal deficit, do not discuss at all.

Finally, view the European Union as a sum of mechanism from every member state. It views European Union as a fictional aggregation. The European Union's profit is the mechanic addition by every European country. They use the same standard to judge fiscal situation in every European Union country without considering the differences of history, culture and social structure. Moreover, they also ignore the connection between economy and society among all member states.

The restriction of strategy has three parts. First, austerity policy with severe recession. European Union countries adopt austerity policy in order to eliminate government debt. However, this method will decline effective demand and extend the recession period. Furthermore, it will also exacerbate government debt. Recession is the reason that causes government debt. When they face the recession, they need to coordinate monetary policy, fiscal policy, labor policy and income policy. Strategies, which view the results as the reason, make fiscal situation become even worse in every country.

Second, government Debt problem is the distribution problem. The neoclassical economic theory focuses on efficiency. In general, it means to pursuit economic growth. It will cause insufficient effective demand and further lead to recession based on the ignorance of uneven distribution because the low income earners have higher marginal propensity to consume on the one hand. On the other hand, it will cause the privatization of profit and the socialization of cost through the aspect of politics and society due to uneven distribution of economic resources. Then it let government debt in the further severe situation. It is necessary to realize all potential problems of politics, economy and society when we face the fiscal problem.

Finally, the fiscal situation has a strong relationship among all European Union country. The fiscal revenue and expenditure are limited because the unitary monetary policy in Euro zone and some of member states seek for rescue. Therefore, government debt problem cannot use the single standard to judge it. It needs to consider fiscal situation in every country at the same time. In other words, it is necessary to consider the relationship between peripheral countries and core countries as well as the connection between every European Union country and the whole world.

3.2 The Discussion of Limitation of Current Strategies by Fiscal Sociology

3.2.1 Fiscal Sociology

Dialectical materialism and the pluralism are used as a methodology basis in the fiscal sociology (McLure, 2004; McLure, 2005; McLure, 2006). On the one hand, it views the whole society as an organic society and it emphasizes the structural relationship among every part of society. Public finance is the only part of society. On the other hand, it discusses problems of politics, economy and society in the whole country's economy and social institution based on the analysis of hierarchy (group). Moreover, it will propose strategy based on this analysis. As the Goldscheid, who proposed the fiscal sociology as a research-oriented, said, he thought that we should place fiscal procedure in the core of country's activity and explained the fiscal deficit through discussion social and fiscal situation among most of household and its influence on the society (Goldscheid, 1967). The viewpoints of government debt based on the fiscal sociology have three parts.

First, the government debt problem is the result of economic profit conflict. Government's revenue and expenditure are determined by these hierarchy and group's economic profit conflict basically. The economic profit conflict of international trade, production, income distribution, environmental issue will reflect on government debt. Thus, we need to focus on the economic profit conflict when we face the government debt problem.

Second, The social factors of government debt problem. The fiscal sociology emphasizes that the national budget has social essence. Furthermore, the national budget is embedded in the society. It also means that government debt needs to take the whole social politic institution, social structure, moral values and cultural tradition into consideration. Naturally, government debt problem is a problem of economic resources distribution. The uneven economic resources distribution leads to the uneven "economic power" among all nationals. Furthermore, it will extend to the aspect of politics and society in the democratic capitalism because of the uneven economic power. Then the "politic power" and

“social power” are uneven as well. Due to the reason mention above, it has the exploitative behavior formed naturally during the determination procedure of government’s revenue and expenditure. Furthermore, it also means that dominant hierarchy (group), which has strong economic power, will exploit the backward hierarchy (group) during the economic profit conflict of resources distribution.

Finally, the financial capital has a dominant position. The capital has a dominant position in the economic profit conflict because of the capitalization of factors of production. The traditional factors of production include land, labor and capital. It has the mutual and substitute relationship simultaneously because the restriction of productive technology in productive activities. In the aspect of output, it has the mutual relationship as well as the exploitable relationship. The capital originally has superior dominance and a strong authority to decide and dominate the surplus value. Due to the development of financialization, capital gradually invades the scope of land and labor which causes the capitalization of land and labor. Moreover, the exploitable situation of land and labor by capital is much more seriously.

On the other hand, capital can be divided into industrial capital, commercial capital and financial capital due to the capitalist’s division. It also exists the dependent and exploitable relationship. Due to the change of productive organization, it causes that the capital owners and the capital users are different. Furthermore, the industrial capital and commercial capital transfer into financial capital through securitization. That causes that the users of capital can dominate the capital owners. The financial capital has a dominant position based on this kind of transformation (Huang, 2003: 112). Financial capital has a dominant position through the aspect of market, politics and society. It also results in the privatization of profit and the socialization of cost and further exacerbates government debt.

3.2.2 Fiscal sociology can be used as a theory basis in response to government debt in every European country

In the European Union, when we discuss the European debt crisis, we should realize the most of household’s social and fiscal situations and the interaction among all countries in the framework of every European Union country and the whole world. Then it may propose effective strategies. The reasons why we can analyze the European debt crisis through fiscal sociology have three parts.

First, The deregulation of financial market based on neoliberalism. The fiscal sociology is emphasis on the economic profit conflict to face the government debt. It is towards the deregulation on the financial market because of neoliberalism since 1980s. This leads to the change of factors of production in mutual and exploitable relationship due to the financial dominance. Then it forms different kinds of economic profit conflicts.

Second, the severer income distribution. The fiscal sociology views the government debt as distribution problem of economic resources. It apparently presents that the European Union countries are facing the uneven distribution of economic resources based on the functional income distribution, individual income distribution or the development of top income. Therefore, we can realize the government debt in every European country from the aspect of income distribution.

Finally, the further conflict among European Union countries. We should focus on the macro-historical paradigm to face government debt problem based on the fiscal sociology as well. That means that it needs to take the main driving force of society, economy and politics into consideration (Moore, 2004: 3). When member states face the government debt especially peripheral countries and core countries, they should take the formation of European Union and the implement of Euro into consideration.

3.3 Discussion of the European Debt Crisis by the Financialization and Income Distribution

The financialization and the neoliberalism shift the relationship of production, investment and consumption between people to people (region to region and nation to nation). Furthermore, it also shifts the relationship of person to national society about resources' allocation and distribution. We will discuss the government debt problem in every European country based on the shift of social structure in this study. The research orientation of government debt, which is based on the shift of social structure, is the theory basis of fiscal sociology.

3.3.1 Financialization and neoliberalism

The neoliberalism is the concept of economic liberalism. It is against the government to intervene domestic economic and emphasizes the freedom of market . Furthermore, it also advocates the privatization and against the minimum labor policy. In general, the policies of neoliberalism include deregulation of labor market, reducing the government' interference, reducing the government's policy of demand management, the income redistribution from wages to profits (top manager), the deregulation and liberalization of domestic and international financial market and etc.

The financialization means the increasing the role of financial motives, financial market and financial institution in the operation of the domestic and international economy (Epstein, 2005: 3). That means that the increase the role of finance in the economic system is called financialization. In the micro aspect, financialization shifts the economic actors' (household, labor, firms and financial institution) thoughts of how they think of themselves, the target that they want to pursuit and restriction they face. In the macro aspect, economic operation easily influences by the price of real estate and financial assets and debts. Moreover, the shift of rating for the national debt will lead the fiscal dilemma.

The financialization enhances the commoditization. This shift let the financial institution tend to transaction of current assets in order to satisfy rate of return. It is transference of authority to the interior firms. Capital has more authority than labor. It is a new kind of exploitation to household (Stockhammer, 2012: 40).

Financialization influences the development of macroeconomic development (aggregate demand and real growth rate of GDP) through the channel of investment, consumption and distribution according to the Post-Keynesian macroeconomic perspectives. In the investment, it strengthens the management target in short-run and reduces the physical investment by financialization. Moreover, it ignores the long growth of corporation. Financialization creates a debt-consumption based on a wealth basis in the aspect of consumption. The bubble of stock market and real estate increases the nominal assets and let household can borrow more money. The new financial commodity increases the possibility to lend loans to those low income earners which forms a military competition. In the aspect of distribution, financialization reduces labor income share and enhances the inequality of salaries.

The influence of functional income distribution by financialization and neoliberalism is through three channels to drop labor income share based on the Kaleckian's framework. First, shift the composition of economy from the corporation sectors and non-financial sectors which have high labor income share to the financial sectors which have low labor income share. It will decline the labor income share overall. Second, the increase of overhead cost (management's salaries) and the increase of shareholder's profit (increase invest and dividend payment) which is required by shareholders is positively related to the decline of labor income share. Third, The financialization and neoliberalism weaken the bargaining power of trade union by increasing the shareholder value orientation management, the transference from strong trade union of public sector and non-financial sector to weak trade union of financial sector, the deregulation of labor market and the liberalization and globalization of international trade and finance(Hein,2011).

3.3.2 The influence of government debt by the uneven distribution in every European country

It will use the basis of dialectical materialism and pluralism based on the fiscal sociology and explains the root of government debt in every European Union country by the analysis hierarchy (the relationship between high income and low income, the relationship of factors of production and the relationship between professional hierarchy and non-professional hierarchy) and different aspect (politics, economy, society and law). The uneven income distribution leads to privatization of profits and the socialization of cost for those high income earners, professional hierarchy and financial capital through the aspect of politics, economy and society.

Before we discuss the economic profit conflict in different aspects, the distribution of functional income, individual income and top managers is viewed as analysis basis.

First, from the functional income distribution, the ratio of labor income share to GDP is decline since 1980s. If we observe the information about 1980s to 2008, the Austria (The average labor income share from 2000 to 2008 is approximately 65%.) and Ireland (The average labor income share from 2000 to 2008 is approximately 55%.) decline over 10%. Moreover, Greece (The average labor income share from 2000 to 2008 is approximately 60%), France (The average labor income share from 2000 to 2008 is approximately 65%) and Spain (The average labor income share from 2000 to 2008 is approximately 62%) decline over 5%. Belgium (The average labor income share from 2000 to 2008 is approximately 69%), Germany (The average labor income share from 2000 to 2008 is approximately 63%), Italy (The average labor income share from 2000 to 2008 is approximately 65%), Netherlands (The average labor income share from 2000 to 2008 is approximately 65%) and Sweden (The average labor income share from 2000 to 2008 is approximately 69%) decline lower than 5% .

Second, from the individual income distribution, the individual income distribution became much more inequality since mid-1980 to mid-2000. The Gini coefficient rises above 15% in Germany, Italy and Portugal .

Third, to the top income, if we observe the top 0.1%, it remained stability or increase slightly since 1980s. It is notable that the top 0.1% in Germany is substantially higher than other European countries .

Government debt in every European country presents in the economic profit conflict of fiscal policy, monetary policy, labor market policy and trade policy based on the decline of labor income share, exacerbation of individual income distribution, the higher top 0.1% in Germany and the environment of financialization.

Fiscal policy

The main part of hierarchy conflict is the economic profit conflict between the financial speculator and the general public (professional hierarchy and non-professional hierarchy) in the financial capitalism. The financial speculators relabeled the crisis, which is derivative from the economic profit conflict, as a sovereign debt crisis on purpose. Furthermore, they think that the root of problem is lack of fiscal disciplines. They require the government to cut public expenditure and avoid levying taxes on their profits and wealth (Onaran, 2010). The cut of government expenditure is in a disadvantage to public and it does not levy taxes on their profits and wealth which conforms to their profits.

A . The requirement of fiscal austerity by the Stability and Growth Pact and rescue plan caused economic profit conflict

The fiscal deficit increases continuously because of general high social welfare policy, recession and the problem of tax evasion. It is necessary to follow the Stability and Growth Pact (SGP) in order to maintain fiscal discipline in euro

zone. This pact is about government's deficit cannot over the 3% of GDP and the sovereign debt should be lower than 60%. Countries that have the debt problem need to conform to the regulation of Stability and Growth Pact in order to gain the rescue plan from the European Central Bank. After they acquire the rescue, they need to adopt austerity policy to achieve the restriction of Stability and Growth Pact. However, this kind of method let the peripheral countries towards even severe government debt problem. This is the economic profit conflict between high income earners and low income earners. Those who have high income are viewed the welfare state, health service and education as the private cost instead of the maintenance of human capital and the creation of investment. Hence, they think that social welfare expenditure will impact on saving and labor's willing. Nevertheless, the austerity of social welfare institution and pension, it will have harmful on those medium and low income earners. Furthermore, it is also derivative the decline of sufficient effective demand and extends the recession longer which is in a disadvantageous position for those medium and low income earners.

B . The economic profit conflict of tax burden

The high income earners hope the low tax rate and rare government's interference; however, for those private corporations, they hope that government can increase expenditure in products and services that they produce. Therefore, the high income earners propose the concept of Laffer curve and the trickle down theory as a theory basis for the government to offer compensation and reducing tax to enterprises. Laffer curve thought that it can have more tax revenue based on the low tax rate and the trickle down theory thought that it has the advantage to others based on the tax breaking to rich people because the manager in the enterprise will distribute the profits to employees and public .

The intravenous model of capital investment is an excuse for those professional managers of cross-border companies and high income earners to decline tax rate and own tax breaking. They tell public that if we levy the taxes heavier on the profit-seeking enterprises or high income earners, it will reduce the capital flow in the domestic economy and have influence on economic growth and increase of productivity. On the other sides, if we can lower the tax rate and give some tax incentives to enterprises and high income earners, it will lead the capital flow flowing rapidly and enhance productivity and economic growth (Block, 1990: 152).

Although the cross-border companies do not have force, they not only have power of guiding and surround with government but also have the power detaching investment and convincing the government because the power of cross-border companies surpass in every sovereign country. Hence, politicians are always in line to beg for foreign direct investment no matter they are in developed or developing countries. Furthermore, the developed or developing countries also offer free lands, presented public investment infrastructure, tax holiday and etc. that is why the cross-border companies always can acquire tax breaking and cut the tax rate in the tax burden of economic profit conflict. The loss of tax revenue will finally reflect on the government debt.

C . The share of cost

The most explicitly cost is the public debts and budget deficit during the European financial crisis. The essential reason of rising budget deficit is to rescue the financial crisis by adoption banks' rescue plan, counter-cycling fiscal stimulation policy, the increase expenditure of social protection caused by raising unemployment rate and the loss of tax revenue in order. From the ratio of budget deficit to GDP in 2010, it explicitly increases in Germany (4.95%), France (7.98%), Greece (9.37%), Portugal (8.35%), Spain (9.8%) and Ireland (32.3%). It is notable that Spain, Ireland and Germany shifted the surplus to loss in 2007. From the ratio of public debts to GDP, it explicitly increases in

Germany (10.85%), France (19.2%), Greece (35.2%), Portugal (20.0%), Spain (28.3%) and Ireland (72.4%). The reason why Ireland can increase rapidly is the over-expanded banks' sectors.

Monetary policy

The Euro zone creates the economic profit conflict because of the unitary monetary policy. This is a kind of economic profit conflict between core countries and peripheral countries. On the one hand, it leads to unstable economy in the Euro zone because they use the single monetary policy and the different economy and society among all European Union countries. Basically, the core countries (Germany and France) are more superior than the peripheral countries (Greece, Portugal, Spain and Ireland) as well as the national competition. On the other hand, the fiscal policy is regulated by the Stability and Growth Pact and countries that joined the Euro zone are limited in the monetary policy because of the single currency (It cannot increase export by depreciation currency). Therefore, adjustment of labor market is the only way to enhance international competition. Countries (core countries) that have well economic structure and low labor cost will gain profits in the situation of unitary monetary policy; however, the peripheral countries are in disadvantageous position. The exploitation between core countries and peripheral countries leads to the even severe government debt in the peripheral countries.

Labor market policy

The financialization and neoliberalism cause the decline of labor income share and the increase of profit share. This is a kind of economic profit conflict between labor and capital. The violent struggle of income share is not from the poor and the middle class but from the rich. They scarify others as a cost to excessive expansion their financial resource. They reduce the hire of employees and reduce the wages for those employees who still work. Besides the rich, they reduce the guaranteed authority of work and they try to outsource most of things. They also force the employees to do the same thing in low wages.

People without any technique are miserable in the world of financial capitalism. They become one of commodities which are easily substituted by the overseas workers. Their demand is lower; then the work and revenue are unstable. Those people who are blue-collar are in the danger of proletarianize because they are substituted by the overseas low income workers and robots. Then they are pushed to the low hierarchy that is without any techniques (Perkin, 1996: 39). Those high income earners take the advantage of recession and weak of trade union to reduce wages, accelerate the flow of work, reduce the number of full-time workers, and hire the part-time and constraint workers in the low wages. The exploitation relationship of suppression wages let the labor income share decline and extend recession period. Importantly, government debt problem are even more serious.

From the unemployment in every country in 2012, it presented a trend of increase in Germany (5.5%), France (10.2%), Greece (24.3%), Portugal (15.9%), Spain (25.1%) and Ireland (14.7%) . Moreover, the trend of labor income share has already mentioned above.

Trade policy

The economic profit conflict presents explicitly between nations to nations. Moreover, the divergence of economic social structure and historical culture is formed the difference of international trade which are strong and others are weak.

In the background of uneven individual income distribution and decline of labor income share, two kinds of capitalism model are developed based on the development of financialization. Debt-led consumption boom model and export-led mercantilist model are complementary and they cause the uneven current account among all countries as well.

Countries which are Debt-led consumption boom model are Greece, Ireland, Spain, USA and etc. we can clearly find the increase of house price and the increase the ratio of wealth to income in this kind of economy. Furthermore, it has the benefit of increasing demand of consumption and also has contribution on private and domestic consumption. Due to the domestic expenditure exceeded national income, these countries must have current account deficit. The complementary of debt-led consumption boom model is export-led mercantilist model. Countries include Austria, Belgium, Germany, Netherlands, Sweden, Japan and China. These countries always have current account surplus. The domestic output can have capacity to export based on the weak domestic demand, low growth of unit labor cost, low inflation and depreciation of nominal currency. Export-led mercantilist model has benefit from the global demand which was caused by those countries of debt-led consumption boom model. From the ratio of current account surplus to GDO in 2008, Germany was 6.6%. France was -1.1%. Greece was -13.6%. Portugal was -11.1%. Spain was -9.5%. Ireland was -4.9%. If we read the statistics in recent ten years, we can find that the most severe time of uneven current account among in the international is the period of 2007 to 2009 .

The collapse of debt-led consumption boom model started in the subprime mortgage crisis. It not only influences on countries of debt-led consumption boom model but also influences rapidly on countries of export-led mercantilist model as well. On the one hand, the countries of export-led mercantilist model face the serious problem of aggregate demand in the collapse of export market in this crisis. On the other hand, they are influenced by the financial market. If they directly invest in those high-risk and collapsing financial market in the countries of debt-led consumption boom model, their export of capital may be depreciated quickly (Hein, 2011: 43-51).

4. Conclusion

The austerity policy, which are adopted by neoclassical economic theory, cannot solve government debt problems and further worsen the economy. This article realize that the root of European debt crisis is the economic conflict, which result from financialization and uneven income distribution, through fiscal sociology. It has the phenomenon of the privatization of profit and the socialization of cost because the uneven income distribution results in the economic profit conflict in the aspect of politics, economy and society among capital to labor, high income earners to low income earners and professional hierarchy to non-professional hierarchy. Finally, it will present in the government debt. Based on this cognition, if government wants to solve debt problems accurately, every country needs to toward management of financial and reasonable income distribution.

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